

INDUSTRY UPDATE

Biweekly Period Ending March 23, 2002

Phoenix Metro Area

Manufacturing

Alliant Techsystems' planned **purchase of Boeing's Mesa-based ordnance business** was **not expected to lead to any layoffs** of the approximately 50 Boeing workers. The Mesa operation produces cannons for ships, helicopters, and armored vehicles. Alliant, also known as ATK, is the largest supplier of tank ammunition for the U.S. military. ATK expects the two businesses to compliment each other, **leading to expansion** of the Edina, Minn.-based **company**, which currently employs 11,200. Boeing said it sold the operation in order to concentrate on its core business — the AH-64D Apache Longbow helicopter and wire harnesses for military cargo planes and fighter jets.

The idea of controlling your home thermostat while using the Internet half way around the world might sound like science fiction, but the technology is being developed at Mesa-based **P&S DataCom**. The startup business, which has about 10 employees, has **developed a microchip and software** that can be installed in appliances that are then **connected to the Web**. P&S DataCom, a subsidiary of P&S Electronics of China, is currently seeking \$8 million in venture capital in order to expand its Arizona operations, including **tripling its workforce**. The Internet-controlled microcontroller is being tested by about 20 companies in a wide range of industries, such as utilities, security companies, and fire alarm manufacturers.

Nearly a month after **Northrop Grumman Corp.** announced plans to **purchase TRW** (see Feb. 23, 2002, *Industry Update*), the Cleveland-based defense and automotive-part

manufacturer said it will divest itself of its auto unit, including two air-bag plants in Mesa. If successful in landing TRW, Los Angeles-based Northrop Grumman had also pledged to **sell off TRW's automotive businesses**. TRW, whose air-bag plants employ about 1,700 people in the Valley, has rejected Northrop's stock buyout offer of \$47 a share. But Northrop said it still plans an attempt to acquire TRW.

The state's recent attempt to attract the International Genomics Consortium (see Statewide, below) appears to have gotten the attention of an **Israeli biomedical manufacturer**, which has **chosen Phoenix** over Chicago and Los Angeles for its U.S. headquarters. **Elcam Medical Inc.**, which **makes plastic injected-molding parts for medical-device manufacturers**, is trying to partner with U.S. drug and biotech companies to make products and spin off other businesses. No information was available on the number of current or potential jobs Elcam expects to create. For more information, see the company's web site: www.elcamplastic.com.

Construction

Work is progressing smoothly on a mix of **sports, recreation, and government projects** in the northwest Valley city of **Surprise** that combined total more than \$100 million. At the heart of the development is a \$48 million Cactus League **stadium for the Texas Rangers and Kansas City Royals** (also see "Miscellaneous" in Statewide below). The 10,500-seat stadium, which will be available for other uses, will be **completed late this year**. In addition, to the east of the stadium, Surprise is **building an aquatics center, a county library branch, municipal courts and public safety buildings**, a 58-acre park

with a 5-acre lake, an elementary school, and several other civic projects. A **20-year commercial-development phase** is also expected to get under way in 2003, with a hotel at the top of the list of projects.

Transportation, Communications, and Public Utilities

Tempe-based **America West Airlines** recalled slightly more than **200 employees** — 170 flight attendants and 38 pilots — in mid-March, signaling that the Valley's (and nation's) economy is on the mend. Shortly after the September 11 terrorist events, America West **laid off** nearly **20 percent** of its **workforce, or 2,000 employees**. But with the current callback, the airliner has now rehired three-quarters of those furloughed workers.

Finance, Insurance, and Real Estate

The Valley's **commercial and industrial real estate markets remain weak**, according to several industry analysts. Both office and warehouse vacancy rates are expected to rise in 2002 to their highest levels since 1993. Nearly 2 million square feet of new office space was recently completed or is under construction, translating into **higher vacancy rates (about 17 percent) this year**, according to CB Richard Ellis. On the other hand, the retail and housing markets continue to remain strong, despite some slowing in the past six months. Vacancy rates at shopping centers are expected to be in the 7 percent range in 2002.

USAA, a national insurer and financial services company for active and retired military personnel, hopes to **make up in hiring** in the Valley **this year** for what it planned to do in 2001. The San Antonio-based company, which opened a **regional headquarters in north Phoenix** (I-17 and Happy Valley Road) last June, expects to **add 400 jobs in 2002** — including **billing and customer-service positions** — to its current workforce of 500. USAA had originally planned to add more jobs in 2001, but will make up for it by doubling the number of jobs it had planned to create this year. All of the Phoenix job

growth has occurred despite the elimination of 1,300 jobs company wide last year due to restructuring. Over the **next decade, USAA projects** that its **Phoenix regional campus** will **employ** more than **15,000 workers**.

As evidenced by the Valley's strong housing market, Texas-based **Colonial National Mortgage** and Phoenix-based **Capital Title Group Inc.** have **opened new branches** in the Phoenix metro area. Capital Title will locate its 36th branch overall in Arizona in Chandler, while Colonial is opening its first office in the state in central Phoenix.

Dallas-based **UICI** has **bought** Arizona's **second-largest Hispanic-owned business**, Phoenix-based **STAR Human Resources Group**, for \$25 million. Started in 1989, STAR primarily sold **health insurance policies** to its **550 corporate clients**, which included 28 Fortune 500 companies.

Trade

Developer **DMB** has **begun work** on the first of an expected **five-dealership auto mall** at U.S. 60 and Superstition Springs Boulevard in **Mesa**. DMB's first project, expected to **open in spring 2003**, will be a 38,000-square-foot **Nissan franchise owned by Earnhardt's Auto Centers**, the company's 12th dealership. DMB estimates the project will be complete in three years, with the **five dealers employing 800 workers** with an average wage of \$45,000.

There are **several retail developments** in the "as-yet-to-be-determined" category that potentially **could bring several thousand jobs** to the Valley. *The (Phoenix) Business Journal* reported that **Kohl's**, a national department store chain based in Wisconsin, will **open the first of 10 stores in the Valley** near the **Scottsdale Airpark in late 2003**. Kohl's, with nearly 400 stores in 30 states, sells a medium-priced line of clothes and home goods. ... A **fight** is brewing **between Scottsdale and Phoenix** over **landing a high-end shopping complex near Loop 101 and Scottsdale Road**. The state Land Department is expected to announce in early

April how it believes 2,000 state-owned acres (which it will lease) should be developed. **Land** in Phoenix or Scottsdale (**on either side of Scottsdale Road**) could become home to the **upscale shopping complex**, which is expected to generate \$170 million in sales tax revenue over 20 years. Nearly 300,000 people with an average income of \$95,000 will move into the surrounding area over the next several years. ... A plan to build **three performing arts facilities** is the **latest idea for redeveloping downtown Scottsdale** near the Arizona Canal. The \$135 million project — which would include an 1,800-seat theater, a 350-seat theater, and a third theater with flexible seating for up to 300 people — would be the **third major proposal** for land near Scottsdale Road and Goldwater Boulevard. Complaints about high costs and density, along with funding problems, sank two other proposals over the last several years.

Services

Although the hotel business is hurting now, Dallas-based **Pegasus Solutions** is looking for maximum growth in the future with construction of a three-story, 140,000-square-foot **office building in north Scottsdale**. The hotel reservation-processing company will **re-locate** its **600 Valley employees** into one central location near **Loop 101 and Frank Lloyd Wright Boulevard** by the **end of 2002**. Initially, Pegasus **doesn't expect many new call-center positions** (the bulk of its jobs) due to the current weakness in travel, but there should be **openings in high-tech areas** related to a **new Internet reservation system** the company will operate for several hotel chains.

Phoenix will be among several cities with **CheckFree Corp.** operations **expected to lose employees** as part of a layoff of 450 workers by the **electronic bill-payment company**. The Norcross, Ga.-based Internet business, which has 5.9 million customers, is eliminating 300 positions by closing two of-

fices in Texas (150 jobs), and **reducing workforces** at four remaining operations in **Phoenix**, Atlanta, Chicago, and Dublin, Ohio. Another 150 jobs will be cut at its software operations in Michigan and Singapore, and at its corporate headquarters. CheckFree expects to save \$30 million with the reductions.

Start-up company **Cinemas Millennium** will **open in mid-April the first of several movie theaters aimed at** the Valley's burgeoning **Hispanic market**. The Phoenix-based business will **open a multiplex theater** (formerly operated by United Artists) at the **East Valley Mall in Chandler** (Arizona Avenue and Warner Road), then **two more theaters** in the **west Valley later this year**. Further down the road, Cinemas Millennium, which will show Spanish-language movies with English subtitles and vice versa, wants to expand into four other southwestern states.

Tucson Metro Area

Manufacturing

Like its namesake, a producer of weight-reducing drinks is wasting no time in getting its manufacturing operation at a **new Tucson plant** up and running. **Slim-Fast**, which started building last fall, expects to **open the \$100 million milk-shake facility by July, employing about 200 people**. The company's second manufacturing plant, Slim-Fast received a number of tax incentives — including credits from a federal Empowerment Zone program — to build the plant on 85 acres at **Interstate 10 and Rita Road**.

Finance, Insurance, and Real Estate

Targeting educational, medical and professional industries, **Commerce Bank** will **become the Tucson area's fourth independent bank by July 1**. Commerce's main operations will be located in a 7,700-square-foot building at 3805 E. Broadway, with its first branch (Ina and LaCholla) expected to open during the fourth quarter. About **20 employees** will work at the two locations. Further

expansion will depend on the bank's success, a company official said.

Services

With a \$2.6 million infusion of cash, a **Tucson-based software company** expects to **expand its sales and marketing force** and double revenue **over the next 12 months**. Five-year-old **NewMonics Inc.**, which has about 30 employees nationwide (20 in Tucson), produces software that assists telecommunications companies in developing new products. NewMonics' clients include Intel, Nortel Networks, and a Qualcomm supplier (Xata).

Government

Due to **restructuring** by the **Defense Department** for the 2003 federal fiscal year, **Davis-Monthan Air Force Base** will **lose a combined 500 military and civilian personnel** at the beginning of October. Almost all of the loss will come from the **deactivation** of the **42nd Airborne Command and Control Squadron**, which provides air command and communications services and moved to Davis-Monthan in 1994. It's possible, however, that the **Tucson base may gain a search-and-rescue unit** similar in size by **summer of 2003**, said a joint news release from Arizona's two senators. Related to the Davis-Monthan's losses will be the **gain** of about **150 military personnel** at **Luke Air Force Base in Glendale** beginning in late September. The additions to the 56th Fighter Wing at Luke are due to increased need for aircraft maintenance.

The Tucson City Council awarded a Boston company the contract to **develop and operate a \$32 million aquarium** that will be the **centerpiece** of the city's \$750 million **Rio Nuevo downtown redevelopment project**. Details of the contract and project still need to be worked out, but **Chermayeff, Sollogub and Poole Inc.**, along with their affiliate, **International Design for the Environment Associates**, will build the aquarium on 10 acres **near Interstate 10 and Congress**. A competing group, and the original proponent

of an aquarium, Sonoran Sea Aquarium, was upset at not being selected, but the winning firm said there's a possibility of working together on some portion of the project.

Balance of State

Trade

Bullhead City approved rezoning a tract of land in mid-March to allow the **building** of a **Home Depot and Carl's Jr. restaurant along State Highway 95**. No other information, including the number of potential jobs, was available.

Government

Despite strong lobbying efforts by Sierra Vista officials, **Fort Huachuca** was **not chosen** for a new **Southwest regional headquarters** for the Army's **reorganization of military installations**. The Army is creating four regional headquarters in the U.S. and seven worldwide, which will be used to minimize the effect of downsizing on local communities during the next base-closing process. Losing out on the regional headquarters was **not a sign** that **Fort Huachuca's odds of being closed will be greater**, military officials said.

Navajo County was expected to **open** a new **Juvenile Detention Facility in Winslow** in late March. The \$5 million project, which took two years to complete, will house up to 40 juveniles and include classrooms and recreational facilities. **No information** was available on **potential new jobs** the facility would create.

Miscellaneous

The **city of Payson** is seeking to **acquire 400 acres** on the **southwest side of Payson Municipal Airport** in order to **open future opportunities for economic development and expansion of the air facility**, thus creating additional jobs. The city has proposed trading 75 acres next to Montezuma Castle National Monument and additional funds to three private groups that own the property next to the airport. Payson would use about

13.5 acres for the airport expansion and the rest for potential commercial development.

Statewide

Trade

The **future of thousands of Arizona workers is unclear** after the approval of the **merger of Phillips Petroleum and Conoco** by their shareholders in mid-March. A large majority (4,200-plus) of Phillips' workers in the state are employed in Maricopa County at Circle K and Phillips convenience stores, as well as at their marketing arm (about 1,500 jobs) in Tempe. Phillips acquired the Circle K stores and its marketing operation when it purchased Tosco Corp. last year. But **workers throughout the state could be affected** by the potential shutdown of retail locations. The new combined company expects to save about \$750 million annually through job cuts and redundancy savings.

Miscellaneous

Private industry, individual investors, Arizona's universities, and the state itself are **coming together to land one of the most sought-after projects in the country**. Over the past few months, these varied interests have cobbled together an estimated \$90 million (and are seeking another \$30 million) in pledges to battle three other states in **landing the International Genomics Consortium** — a research group that explores genomics and medical applications. If successful, Arizona would attract biotech companies from around the world seeking solutions to some of life's most vexing problems, such as cancer, organ regeneration, and genetic defects. If Arizona is successful in landing the consortium, **Tucson may be a logical location for the biotech research group**, being **home to at least 60 biotech firms employing 1,700 people**.

Through mid-March, **Cactus League attendance** was on a **record-setting pace**, but apparently it **won't be enough to offset a mediocre winter tourism season**. Total

attendance was expected to break 1 million this year, beating a record set in 1999. However, higher baseball attendance may have been spurred by local, not visiting, fans' interest in the Arizona Diamondbacks, who won the 2001 World Series. **Hotels in the east Valley** reported **higher vacancy rates** than a year earlier due to a weakened economy exacerbated by the Sept. 11 terrorist attacks. On a good note, however, work on a new 10,500-seat stadium in Surprise (in the northwest Phoenix area) for the Texas Rangers and Kansas City Royals is progressing smoothly, with an expected opening for the 2003 spring training season (also see "Government" section in Phoenix Metro Area, above). The two teams will increase the Cactus League to 12 clubs, which should lead to additional tourism revenue from hometown fans visiting the state.

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